U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Urges China to Comply With Its Trade Obligations

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, with jurisdiction over international trade, today sent a letter to the Minister of Commerce for the People's Republic of China (China) requesting that China make a serious effort to improve its compliance with its World Trade Organization obligations.

"There's a lot of pressure in Congress and the Administration to take action," Grassley said. "I don't see that ending until China takes some concrete steps and moves quickly to assure the American public that it's keeping its promises.

"I want American farmers and factory workers to know we're holding China accountable. We have to make sure they get the full measure of benefits on which our trade partners agreed. And China needs to do more, especially in agriculture. Iowa's farmers and workers are letting me know that China is still using unreasonable scientific standards for agricultural biotech products, is still not fulfilling its agricultural quota commitments, and is manipulating its taxes to distort international trade.

"Transparency is also a big problem. When China makes decisions behind closed doors, businesses lose their voice. That ends up hurting China just as much as U.S. companies. China also has to address stronger intellectual property rights enforcement. It's time for China to abide fully by its international trade commitments."

The text of Grassley's letter follows.

October 7, 2003

His Excellency
Lu Fuyuan
Minister of Commerce of the People's Republic of China,
Beijing

Dear Mr. Minister:

As a strong advocate for the expansion of global free trade, I have long supported an open trade agenda that provides growth opportunities for America's farmers, ranchers, and workers. That is especially true in the context of U.S.-China trade relations. For many years, I supported annual renewal of normal trade relations for the People's Republic of China (China). My support for annual renewal did not waiver, even during difficult times in our bilateral relationship.

I also strongly supported permanent normal trade relations for China, as well as China's accession to the World Trade Organization (WTO). I believed these steps were critical to both our bilateral trade relations and as a way of bringing China closer into the community of nations. In giving my full support to these endeavors, I had great faith in China's commitment to the WTO and to the rule of law. I hope my faith was not misplaced.

China will not reap the full economic and political benefits of WTO membership unless China faithfully and fully abides by its WTO accession agreement. At the same time, U.S. farmers and workers will not receive the full measure of benefits from our trade agreements unless a serious effort is made to ensure that our trading partners abide by their international trade commitments and free market principles.

China's accession to the WTO offers enormous market potential for U.S. exporters, especially in agriculture. However, there are multiple reports stating that China is failing to fulfill its WTO obligations, including: in its use of insufficient regulatory transparency; by utilizing unreasonable standards for agricultural biotech products; in its application of agricultural and industrial quotas and tariff-rate quotas (TRQs); through its use of export subsidies; by utilizing discriminatory tax policies on imports; by failing to provide protection for U.S. intellectual property rights; and, in maintaining high capital requirements for establishing service businesses. It is time to take more action.

Transparency. China's uneven implementation of its commitments regarding transparency continues to be a disappointment. Although some Chinese government agencies are making good progress with transparency, others are not. By throwing up hidden obstacles, these agencies are defeating the purpose of negotiated agreements to the detriment of U.S. businesses and farmers. Specifically, certain Chinese agencies are selectively choosing who they will bring in for consultations on rule-making issues, are providing short and ineffective comment periods for new regulations, and are making their final decisions in a black box. This is ironic behavior given China's firm anti-corruption policy. China's lack of transparency only creates conditions for more corruption, not less. This has been especially true where it concerns agricultural issues.

Non-tariff barriers. Recently, U.S. Treasury Secretary John Snow visited China and was given assurances that China would make improvements to its handling of sanitary and phytosanitary (SPS) and biotech issues. I welcome these assurances as there is reason to be concerned that China has been erecting non-tariff barriers to soybean trade. China's quarantine agency, AQSIQ, created a list of foreign soybean exporters, which includes four U.S. companies, that have allegedly violated SPS standards. Shipments from these listed companies could potentially be barred from entering China, but the Chinese government has given no official confirmation of the list or its significance.

In addition, recent developments with China's proposed biotechnology regulations continue to threaten U.S. soy product exports. Last year, exports of soybeans and soy products to China were much less than what they should have been. This was due in large part because China's regulations created unfair burdens that effectively blocked soybean trade from January to March 2002. Although our trade officials were able to reach an interim solution, and China agreed to issue temporary certificates to allow U.S. soybean exports to resume, we still have not resolved the underlying unfairness in the original regulations. And even though U.S. soybean exports are up for the first half of this year, our farmers still have to contend with the uncertainty surrounding whether China's interim solution will be extended, and if so, for how long.

Tariff-rate quotas. China's implementation and allocation of its agricultural TRQs have also been woefully inadequate. Again, this results in U.S. farmers and exporters failing to experience the market gains they were promised under China's WTO accession agreement.

When China joined the WTO in December 2001, it agreed to set up TRQs in nine categories of agricultural commodities, such as corn, soybean oil, wheat, rice, and cotton. Although China has made some good progress on drafting new regulations covering TRQs, and imports are up in the first half of 2003, U.S. farm groups and trade officials have found that China has implemented the TRQs in a trade-restrictive manner. China has unfairly reserved a portion of the TRQs to entities that process for re-export, and has maintained cumbersome licensing requirements for TRQ holders. China has also allocated TRQs in amounts that are not commercially viable.

An August 2003 report from the U.S. Department of Agriculture (USDA) noted that China's TRQ system did little to boost its imports during 2002, as the quotas were largely unused. For example, China's 2002 "fill rate" for corn was beyond low, at 0.1 percent of the agreed-upon level. The fill rate for soybean oil was only 34.6 percent. The TRQ for wheat was 8.47 million tons, but total imports were only 632,000 tons, for a fill rate of 7.5 percent. The fill rate for rice was only 6 percent; for rapeseed oil 8.9 percent; and for cotton 21.6 percent. Further, China must ensure that information on entities that receive TRQ allocations is not withheld. Without transparency, it is very difficult to evaluate potential buyers in China.

Although China has recently made some progress in revising its TRQ regime, I look forward to seeing a full and fair implementation of the TRQ system for the 2004 allocations.

Export subsidies. China is also continuing to provide export subsidies that are hurting our corn exports to third-country markets. Despite a WTO pledge to eliminate export subsidies on corn, China's export sales are priced as much as $20 per ton below equivalent domestic sales. This difference is too great to be accounted for by any rebate of value-added tax (VAT), as China suggests, and cuts into U.S. sales to Asian markets. There is no adequate explanation for why China's corn export prices are lower than its domestic prices.

Value-added tax. Another problem is China's handling of its VAT. Although I understand that China may do away with its VAT in the future, Iowan and other U.S. industries have been negatively affected by its application. Chinese scrap importers, especially of copper, and Chinese customs officials are manipulating the VAT to the detriment of U.S. industries. Chinese importers receive a rebate on VAT and then further manipulate import documents to gain greater VAT refunds. These actions cause global commodity scrap prices to rise because Chinese importers can pay more for scrap but still make a profit. U.S. manufacturers that utilize scrap are then forced to pay a higher price for raw materials, thus increasing their production costs, and are then subsequently undersold in the U.S. market by imports of cheap finished products from China. China's VAT policies are also negatively impacting U.S. semiconductor and fertilizer exports.

Intellectual property rights. There are other areas where China is not living up to the letter and spirit of its WTO commitments. For example, although China has good intellectual property rights (IPR) laws on its books, it is sorely lacking in enforcement and coordination. U.S. businesses continue to experience significant IPR problems in China that cost them billions of dollars each year in lost sales. It is estimated that counterfeits account for 15 to 20 percent of all products made in China. Chinese factories violating copyright, trademark, and patent laws are not being shut down and violators are not being prosecuted. China should make an example of these offenders through stiffer penalties and by imposing prison sentences. This could go a long way toward slowing down the illegal trade.

Services. China needs to continue to open its service sector to greater competition. Non-transparent actions by government agencies and high capitalization requirements are keeping U.S. service providers out of the market. Although I welcome China's recent proposals to lower capitalization requirements for foreign insurance companies operating in China, the new thresholds for capitalization are still too high by international standards and are not justified by legitimate prudential concerns. In the end, these actions not only hurt the United States, but they also hurt China.

Currency. Lastly, China is well aware that a fairly valued currency is in China's own long-term interest, and is key for moving to a market driven economy. I was pleased to hear that Secretary Snow was assured that interim steps are being taken and that progress in this area will continue (including looser restrictions on capital flows and ownership of financial assets, and the removal of some capital requirements in the banking system). However, the best international economic system is one based on the principles of free trade, open markets, free capital flows, and <u>market-based exchange rates</u> among major economies. Even the International Monetary Fund and the World Bank agree that China must address this issue.

I urge your government to consider carefully the importance of abiding by both the letter and spirit of its WTO commitments. While I and many others stand ready to work with your government to resolve these trade problems, pressure is mounting within Congress and the Administration for concrete action. It is my hope that China will make good progress in the near future so that we can eliminate the need for any such measures.

Sincerely,

Charles E. Grassley

cc: His Excellency,
Yang Jiechi,
Ambassador of the People's Republic of China